Financial System Strategy 2020

PROF. CHUKWUMA C. SOLUDO, CFR
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on the Nigerian Economy
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INTRODUCTION

- Not focus on the Topic advertised for my presentation “Nigerian Economy: Then, Now, and the Future”----topic for another Day!

- Choose to share broad ideas (not details) of the FSS 2020----- It is the catalyst towards Nigeria 20: 2020

- Subject of Proposed International Conference in June
Why Financial System Strategy 2020?

- Global context------ the world is moving very fast
- BRICs: Nigeria Possibly in Next 11
- Nigerian Financial Industry reforms ----
  -- Outcomes and Challenges
Global Context - Pace of globalisation and its effect on the world today...

- Increase in capital flow
- Rise in global merchandise exports
- Increase in manufacturing capacity
- Broadened Scope of Investments
- Emerging role of China
- Foreign Direct Investment
Extensive work done by Goldman Sachs in 2001, projected that the economies of Brazil, Russia, India & China (BRIC) would surpass that of the G6 nations based on extrapolation of growth rates, demographic changes, capital accumulation, diminishing returns with development, exchange rates etc.
After the BRICs, there is the next 11 or N11 countries, which have the potential to be ‘BRIC like’ in the future as identified by Goldman Sachs one of which is Nigeria. Goldman Sachs believes that only 2 countries in Africa will overtake Italy in GDP size by 2015 i.e. Nigeria and Egypt. For Nigeria to achieve this feat and its aim of being part of the 20 largest economies by 2020, she must maintain an annual average growth rate of 12.4% over the next 15 years and focus on developing the following areas:

- **More Economic Reforms**
- **Steps towards WTO & CET; Ports Reforms**
- **Create a more industrial economy & eliminate over-dependence on oil revenues**
- **Increased commitment to education, security**
- **Improve power supply, transportation & telecom infrastructure**
Huge Growth Reserves---to Move Nigeria towards N-11

- Only 40% of Arable Land under cultivation
- Youthful Population Waiting to be Usefully employed
- Huge Deposits of Solid Minerals Yet to be Exploited
- 6th Largest Deposit of Gas in the World; and 8th largest OPEC oil producer
- Potentials for Tourism still Virgin
- Capacity underutilization in industry is high
- Large Population (one in six blacks in the world) makes Nigeria potentially a very large market
- Growing External Reserves that could be leveraged
Nigerian Economy with huge potentials....

- Remittances to Nigeria exceed GDP of 29 out of 53 African Countries

![Graph showing remittances to Nigeria and GDP comparisons](image-url)
Nigeria’s GDP comparable to Malaysia and Chile, and Second only to South Africa; larger than 14 other ECOWAS countries
External Reserves at US$43 billion and External Debt at US$ 3 billion
BUT NIGERIA’S POTENTIALS CANNOT BE FULLY EXPLOITED WITHOUT ROBUST FINANCIAL SYSTEM THAT LEADS (CATALYST) DEVELOPMENT PROCESS RATHER THAN ONE THAT EXPLOITS OR FOLLOWS
The Structure of the Nigerian Financial Services Industry & Reforms

RECALL REFORMS IN ASPECTS OF FINANCIAL SECTOR AND CBN’S 13-POINT REFORM AGENDA ....
BUT FINANCIAL SYSTEM STILL DOMINATED BY BANKS

- Until recently, the most capitalized company in NSE
- Dominant Sector in NSE, driver of the Exchange
- Nigerian Banks Going Global
  - First 2 companies in SSA to successfully issue Eurobonds
  - Soon some of the banks to be listed in London Exchange
  - Branch network in West Africa growing rapidly and ready to conquer Africa
- Fastest Growing Banking system in Africa (FT)
- Soundest the sector has ever been in history (NPL down from 20% in 2004 to less than 7% now)
- By end of 2007, about 6-7 banks to have more than $1 billion in Tier-1 capital; and about 10 to have $2-4 billion in market capitalization
- **AND**: Exchange Rate and Price Stability power a new wave of capital inflows: Definitely a new Economy is emerging!!!
BUT CHALLENGES REMAIN…..

- Currency remains inconvertible
- Managing capital flows and systemic risks
- Consolidated supervision of the financial system
- Mortgage Reforms
- Evolving appropriate regulations
- Shortage of qualified and experienced manpower
- Poor corporate governance and risk management framework
- Risk-averse operator, regulator-led market
- High lending rates
- Still shallow money and Capital markets
- Underdeveloped insurance industry
- A nascent pension infrastructure
- Financial system integration within West Africa/Africa; Common Currency in West Africa 2009, and African Central Bank located in Nigeria
- Foundations for a Financial Services Authority?
- Uncoordinated Reforms of various aspects of the Financial System…

Financial System Strategy 2020
The Central bank of Nigeria on behalf of other regulatory bodies, initiated an effort to develop a vision and a well articulated strategic plan for Nigeria’s Financial System. This strategy is expected to fully synchronize and integrate with the ongoing economic reforms and harness the gains to ensure that:

**Nigeria becomes Africa’s Financial Hub and joins the league of top 20 largest economies in the world by 2020.**

This project, tagged Financial Systems Strategy 2020 (FSS 2020) has its broad objectives as but not limited to the following:

- Develop a shared vision and an integrated strategy for the nation’s financial system
- Develop market and infrastructure strategies that align fully with the strategic intent of the overall system
- Develop a partnership of all key stakeholders for the implementation of the strategy with a performance management framework
- Establish a communication and collaboration environment for the development and delivery of the strategy
### Overall Strategic Direction

#### The visioning process:

- National Economic Aspirations
- Global Economic Trends
- Industry Character & Dynamism

#### Key Elements

#### Dimensions

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> “A robust and integrated financial system emerges”
Growth Approach

- We are a country in a hurry and we are starting late in the race to become an international financial centre.
  - Our contemporaries have already started and progressed way ahead of us e.g. Singapore, Malaysia, India, etc.

- To ensure we achieve our desired targets within our planning timeframe, we will adopt an engineered growth approach as opposed to a sequential approach.

- This approach will be focused on simultaneously driving development in the domestic market, the external market side and simultaneously facilitate the emergence of Nigeria as a Financial Centre.

- As such we will focus on working with the government and private sector in a deliberate and concerted manner to ensure that all elements are achieved.
Engineered Growth Approach

Support expansion of Domestic market capacity

Foster greater integration with External markets

Build an International financial centre

Develop supporting physical infrastructure e.g. airports, seaports, adequate transportation facilities

- Develop sufficient urban (road and rail) transport
- Develop inter-city/-state transport facilities
- Develop strong international trade and commerce transportation (sea, rail and inland waterways)
- Develop international business transportation services (strong air transportation)
KEY ELEMENTS

- Strengthening Domestic Financial Markets
- Enhancing Integration with External Financial Markets
  - ECOWAS/African Common currencies and monetary policy
  - New Regulatory Framework in integrated markets
- Building an International Financial Centre (new NSPM, AFC)
- Using Improved Financial System as Growth Catalyst
  - Capital Market
  - MSME Financing and credit administration
  - Mortgage revolution and managing pension funds for development
  - Robust money market
  - Insurance
  - Forex market and currency trading
- Macroeconomic Stability--- price and exchange rate
- Towards the Convertibility of the Naira
- The ‘Naira Revolution’ (currency reforms)
- Human Capital Development; ICT; and Legal Infrastructure
- Regulatory Capacity: Towards an FSA Model and a New Central Bank focusing more on ‘Inflation Targeting’.
FOR DETAILS

WELCOME TO THE INTERNATIONAL CONFERENCE ON THE FINANCIAL SYSTEM: JUNE 18--20
THANK YOU FOR LISTENING